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6 NOV 1958

MEMORANDUM FOR: Director, Office of Intelligence Research and Analysis
Department of State

ADDRESSEE: Mr. John G. Oliver

SUBJECT: Office of Secretary of Defense suggestion for
Reimposition of Trade Controls

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1. I have discussed with [REDACTED] the following which is in response to your request for an OAI reaction to the memorandum from Acting Secretary of Defense Quarles suggesting that certain multilateral embargoes be reimposed against Communist China.
2. The controls proposed in the OAI memorandum would, we feel, in no way deter the present level of activity in the Taiwan Strait. The disposition of forces in being and of supplies accumulated through earlier Russian shipments of military equipment are more than sufficient to sustain the present or higher level of activity in this area for some time to come.
3. It is of course possible that a high level of Communist Chinese air activity in the Taiwan area might be reduced to some extent in the future by an effective restriction of tanker tonnage available to Communist China. China's present demand for petroleum fuels apparently exceeds the capability for overland supply from the USSR; the bottleneck is principally the Chinese rail system. On the other hand, even if seaborne shipments of PRC are interdicted, a fairly modest reallocation of existing supplies would permit the support of such limited action as that in the Taiwan Straits.
4. Because of limited capability of overland supply, any significant increase in present levels of China's demand for petroleum will require either charter of Western tankers or the employment of Soviet tankers. Even in this case it should be pointed out that the numbers of tankers required would not be great. For example, the

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estimated probable movement of 200,000 tons of Soviet petroleum to China by sea in 1958 could have been moved in only four Soviet tankers. Of the total of 92 ships in the Soviet tanker fleet, 40-50 of them are of the type required for such voyages.

5. We think it is important to emphasize that the partial embargo of selected strategic goods could be expected to have no significant impact on Communist Chinese military effectiveness. In a controlled economy the size of Communist China's, particularly when backed by the combined economies of the rest of the Bloc, the inconvenience resulting from selected trade controls such as those proposed could be easily accommodated. The Chinese military build-up depends rather on: (1) Chinese decision to divert domestic economic resources away from other programs to defense, and (2) Russian willingness to augment Chinese resources by unrequited exports of Soviet strategic supplies.

6. The Chinese economy although growing rapidly is still relatively underdeveloped by Western standards. Nevertheless, the rate of accretion to Chinese military strength has been considerable in the past few years and may be expected to grow with increased Chinese industrial growth.

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Acting Assistant Director
Research and Reports

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Division and Staff Chiefs, OMB

25 September 1958

Chief, Economic Research Area, OMB

Documentation of EEA Reports

1. You will recall that we recently discussed the question of documentation of EEA reports. The objective of eliminating or reducing current documentation was to speed up the editing, typing and reproduction of these reports. There was no question of eliminating documentation through the completion of the review phase, or of doing away with the preservation of a file copy of the draft report adequately documented. Subsequent to the completion of the review phase, however, this documentation could be fully or partially removed. If fully removed, our EE's PR's, and Ed's would be published in a manner similar to the EIC-214 series.

2. Documentation could be reduced by referring only to the key source references, and using textual devices to indicate origin such as, "Official Soviet announcements state that lobby pin production was 3,000,000 units in 1957."

3. Documentation could also be reduced by confining it to a brief appendix of a page or two which would discuss principal sources used in the report.

4. Will you please talk over these possibilities with your people and let us have a reply covering your views by 3 October?

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